

**LYMAN SCHOOL DISTRICT NO. 42-1**

**AUDIT REPORT**

**JUNE 30, 2008**

**LYMAN SCHOOL DISTRICT NO. 42-1**  
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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

School Board  
Lyman School District No. 42-1  
Lyman County, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyman School District No. 42-1, Lyman County, South Dakota, as of and for the fiscal year ended June 30, 2008 which collectively comprise the Lyman School District's basic financial statements, and have issued my report thereon dated October 17, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

In planning and performing my audit, I considered Lyman School District's internal control over financial reporting as basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that

adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. These are numbered 2008-01 and 2008-02.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

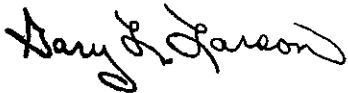
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that the significant deficiencies described above are material weaknesses. See findings number 2008-01 and 2008-02.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lyman School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards. See finding Number 2008-03 in the accompanying Schedule of Findings and Questioned Costs.

Lyman School District's response to the findings identified in my audit is described in the accompanying Schedule of Findings and Questioned Costs. I did not audit the School District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, the governing board and management of Lyman School District No. 42-1 and is not intended to be and should not be used by anyone other than these specified parties. However, as required by OMB Circular A-133 Section .320(a) and South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script, appearing to read "Gary L. Larson".

October 17, 2008

# Gary L. Larson, CPA

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## **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

School Board  
Lyman School District No. 42-1  
Lyman County, South Dakota

### Compliance:

I have audited the compliance of Lyman School District No. 42-1, Lyman County, South Dakota with types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008. Lyman School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lyman School District's management. My responsibility is to express an opinion on Lyman School District's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Controller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lyman School District's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Lyman School District's compliance with those requirements.

In my opinion, Lyman School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

#### Internal Control over Compliance

The management of Lyman School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my

Audit, I considered Lyman School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the School District's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the School District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, I identified certain deficiencies internal control over compliance that I consider to be significant deficiencies and material weaknesses.

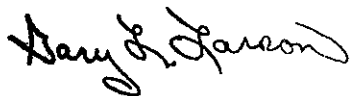
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2008-04 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, I consider item number 2008-04 to be a material weakness.



The Lyman School District's responses to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. I did not audit the School District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, the governing board and management of Lyman School District No. 42-1 and is not intended to be and should not be used by anyone other than those specified parties. However, as required by OMB Circular A-133 Section .320(a) and South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Gary L. Larson". The signature is written in a cursive, flowing style.

October 17, 2008

# Gary L. Larson, CPA

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## INDEPENDENT AUDITOR'S REPORT

School Board  
Lyman School District No. 42-1  
Lyman County, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lyman School District No. 42-1, Lyman County, South Dakota, as of June 30, 2008, and for the fiscal year then ended, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Lyman School District's management. My responsibility is to express opinions on these financial statements based on my audit.

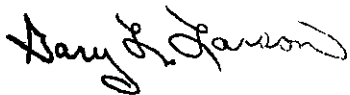
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. According I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund, and the aggregate remaining fund information of the Lyman School District No. 42-1 as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated October 17, 2008 on my consideration of Lyman School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The School District has not presented the Management's Discussion and Analysis (MD&A) and the budgetary comparison schedules for the General or Special Revenue Funds, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not a required part of, the basic financial statements.

My audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Lyman School District No. 42-1 basic financial statements taken as a whole. The schedule of expenditures of federal awards is required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-profit Organizations is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.



October 17, 2008

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$218,302	\$17,974	\$236,276
Investments	5,493,894	0	5,493,894
Taxes receivable	903,298	0	903,298
Inventories	56,696	2,510	59,206
Prepaid insurance	53,398	0	53,398
Capital Assets:			
Land	63,507	0	63,507
Other capital assets, net of depreciation	2,336,851	16,500	2,353,351
<b>TOTAL ASSETS</b>	<b>\$9,125,946</b>	<b>\$36,984</b>	<b>\$9,162,930</b>
<b>LIABILITIES:</b>			
Accounts payable	\$95,021	\$0	\$95,021
Other current liabilities	395,536	12,770	408,306
Deferred revenue	976,252	0	976,252
<b>TOTAL LIABILITIES</b>	<b>1,466,809</b>	<b>12,770</b>	<b>1,479,579</b>
<b>NET ASSETS:</b>			
Invested in capital assets	2,400,358	16,500	2,416,858
Restricted For:			0
Capital outlay	331,117	0	331,117
Special education	625,835	0	625,835
Pension	76,733	0	76,733
Food service	0	7,714	7,714
Unrestricted	4,225,094	0	4,225,094
<b>TOTAL NET ASSETS</b>	<b>7,659,137</b>	<b>24,214</b>	<b>7,683,351</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$9,125,946</b>	<b>\$36,984</b>	<b>\$9,162,930</b>

The accompanying notes to financial statements  
are an integral part of this statement.

**LYMAN SCHOOL DISTRICT NO. 42-1  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>PROGRAM REVENUES</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
Instruction	\$2,175,472	\$0	\$653,676
Support services	1,850,533	1,658	0
Cocurricular activities	171,690	16,383	0
Total Governmental Activities	4,197,695	18,041	653,676
Business-type Activities:			
Food service	195,840	63,400	120,614
TOTAL	\$4,393,535	\$81,441	\$774,290

**GENERAL REVENUES:**

Property taxes  
Gross receipts tax  
State aid  
Federal aid  
Unrestricted investment earnings  
Other general revenues

Total general revenues

Change in net assets

Net Assets-beginning

NET ASSETS-ending

The accompanying notes to financial statements  
are an integral part of this statement.

NET (EXPENSE) REVENUE AND  
CHANGES IN NET ASSETS

Governmental Activities	Business-type Activities	Total
(\$1,521,796)	\$0	(\$1,521,796)
(1,848,875)	0	(1,848,875)
(155,307)	0	(155,307)
(3,525,978)	0	(3,525,978)
0	(11,826)	(11,826)
(3,525,978)	(11,826)	(3,537,804)
1,868,662	0	1,868,662
267,829	0	267,829
1,188,492	0	1,188,492
495,454	0	495,454
229,829	0	229,829
118,177	0	118,177
4,168,443	0	4,168,443
642,465	(11,826)	630,639
7,016,672	36,040	7,052,712
\$7,659,137	\$24,214	\$7,683,351

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2008**

	General Fund	Capital Outlay Fund	Special Education Fund
<b>ASSETS:</b>			
Cash and cash equivalents	\$108,022	\$0	\$19,788
Investments	1,690,257	410,000	695,384
Taxes receivable-current	416,113	266,875	159,439
Taxes receivable-delinquent	11,086	5,237	3,776
Due from other funds	46,198	0	0
Supply inventory	18,200	38,496	0
<b>TOTAL ASSETS</b>	<b>\$2,289,876</b>	<b>\$720,608</b>	<b>\$878,387</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities:</b>			
Accounts payable	\$36,254	\$57,271	\$1,496
Contracts payable	275,881	0	45,082
Payroll deductions and withholding and employer matching payable	63,602	0	10,971
Due to other funds	0	20,998	0
Deferred revenue	438,943	316,459	198,779
<b>TOTAL LIABILITIES</b>	<b>814,680</b>	<b>394,728</b>	<b>256,328</b>
<b>Fund balances:</b>			
Reserved for inventory	18,200	38,496	0
<b>Unreserved:</b>			
Designated for FY '09 budget	321,624	0	241,202
Undesignated	1,135,372	287,384	380,857
<b>TOTAL FUND BALANCE</b>	<b>1,475,196</b>	<b>325,880</b>	<b>622,059</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$2,289,876</b>	<b>\$720,608</b>	<b>\$878,387</b>

The accompanying notes to financial statements are an integral part of this statement

Pension Fund	Impact Aid Fund	Total Governmental Funds
\$0	\$90,492	\$218,302
103,331	2,594,922	5,493,894
40,025	0	882,452
747	0	20,846
0	0	46,198
0	0	56,696
<u>\$144,103</u>	<u>\$2,685,414</u>	<u>\$6,718,388</u>

\$0	\$0	\$95,021
0	0	320,963
		0
0	0	74,573
25,200	0	46,198
42,917	0	997,098
<u>68,117</u>	<u>0</u>	<u>1,533,853</u>

0	0	56,696
		0
45,000	0	607,826
30,986	2,685,414	4,520,013
<u>75,986</u>	<u>2,685,414</u>	<u>5,184,535</u>
<u>\$144,103</u>	<u>\$2,685,414</u>	<u>\$6,718,388</u>



**LYMAN SCHOOL DISTRICT NO. 42-1**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET**  
**ASSETS**  
**JUNE 30, 2008**

Total Fund Balances-Government Funds	\$5,184,535
Amounts reported for governmental activities in the statement of net assets are different because:	
Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds.	20,846
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,400,358
Prepaid insurance is not reported in the funds statements but is in the statement of net assets.	<u>53,398</u>
Net Assets-Governmental Activities	<u><u>\$7,659,137</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	General Fund	Capital Outlay Fund	Special Education Fund
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$862,529	\$595,542	\$311,665
Prior year's ad valorem taxes	5,276	2,932	2,053
Gross receipts taxes	267,829	0	0
Penalties and interest	3,575	1,941	1,373
Earnings on deposits:			
Interest earned	71,247	16,088	29,878
Cocurricular activities:			
Admissions	14,846	0	0
Other	1,537	0	0
Other revenues from local sources:			
Rentals	1,658	0	0
Other	18,669	1,350	0
Revenues from Intermediate Sources:			
County Sources:			
County apportionment	98,158	0	0
Revenues from State Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid	1,188,492	0	0
Revenues from Federal Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid received directly from federal government	0	0	24,997
Unrestricted grants-in-aid received from from federal government through an intermediate source	1,967	0	0
Restricted grants-in-aid received from federal government through state	502,751	0	125,928
Total Revenue	<u>\$3,038,534</u>	<u>\$617,853</u>	<u>\$495,894</u>

The accompanying notes to financial statements are an  
integral part of this statement.

Pension Fund	Impact Aid Fund	Total Governmental Funds
\$78,117	\$0	\$1,847,853
440	0	10,701
0	0	267,829
292	0	7,181
4,597	108,019	229,829
0	0	14,846
0	0	1,537
0	0	1,658
0	0	20,019
0	0	98,158
0	0	1,188,492
0	493,487	518,484
0	0	1,967
0	0	628,679
<u>\$83,446</u>	<u>\$601,506</u>	<u>\$4,837,233</u>

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	General Fund	Capital Outlay Fund	Special Education Fund
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	\$562,653	\$0	\$0
Middle school	273,472	0	0
High school	478,943	0	0
Special Programs:			
Programs for special education	0	0	321,267
Educationally deprived	366,584	0	0
Support Services:			
Pupils-			
Guidance	57,532	0	0
Health	785	0	0
Psychological	0	0	9,042
Speech pathology	0	0	42,505
Student therapy	0	0	51,832
Instructional staff-			
Improvement of instruction	132,648	0	0
Educational media	57,143	0	0
General administration-			
Board of education	43,306	0	0
Executive administration	181,933	0	0
School administration-			
Office of principal	69,667	0	0
Business-			
Fiscal services	74,067	0	0
Operation and maintenance of plant	386,127	369,314	0
Pupil transportation	286,243	6,990	0

The accompanying notes to financial statements are an  
integral part of this statement.

Pension Fund	Impact Aid Fund	Total Governmental Funds
\$57,924	\$0	\$620,577
15,000	0	288,472
20,000	0	498,943
0	0	321,267
0	0	366,584
2,000	0	59,532
0	0	785
0	0	9,042
0	0	42,505
0	0	51,832
0	0	132,648
2,000	0	59,143
0	0	43,306
8,000	0	189,933
6,000	0	75,667
2,500	0	76,567
4,000	0	759,441
6,000	0	299,233

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	General Fund	Capital Outlay Fund	Special Education Fund
Special Education:			
Administrative costs	\$0	\$0	\$5,601
Transportation	0	0	2,590
Cocurricular activities:			
Male activities	40,706	0	0
Female activities	33,761	0	0
Transportation	13,818	0	0
Combined activities	78,067	0	0
Capital outlay	0	153,746	0
Total Expenditures	<u>3,137,455</u>	<u>530,050</u>	<u>432,837</u>
Excess of Revenues over(under)			
Expenditures	(98,921)	87,803	63,057
Other Financing Sources (Uses):			
Transfers-in	158,582	0	0
Transfers-out	<u>0</u>	<u>(16,088)</u>	<u>(29,878)</u>
Net change in Fund Balances	59,661	71,715	33,179
FUND BALANCE, JULY 1, 2007	<u>1,415,535</u>	<u>254,165</u>	<u>588,880</u>
FUND BALANCE, JUNE 30, 2008	<u><u>\$1,475,196</u></u>	<u><u>\$325,880</u></u>	<u><u>\$622,059</u></u>

The accompanying notes to financial statements are an  
integral part of this statement.

Pension Fund	Impact Aid Fund	Total Governmental Funds
\$0	\$0	\$5,601
0	0	2,590
0	0	40,706
0	0	33,761
0	0	13,818
0	0	78,067
0	0	153,746
123,424	0	4,223,766
(39,978)	601,506	613,467
0	0	158,582
(4,597)	(108,019)	(158,582)
(44,575)	493,487	613,467
120,561	2,191,927	4,571,068
\$75,986	\$2,685,414	\$5,184,535

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

Net Changes in Fund Balances-Total Governmental Funds	\$613,467
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds recognize revenue from property taxes in the period for which the taxes are levied, subject to being available (limited to a maximum 60 day "available period"), while for the governmental activities, revenue from property taxes is recognized in the period for which the taxes were levied, regardless of availability.	2,927
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	20,284
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Governmental funds do not reflect the change in prepaid insurance, but the statement of activities reflects the change in prepaid expenses.	<u>5,787</u>
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Change in Net Assets of Governmental Activities	<u><u>\$642,465</u></u>
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The accompanying notes to financial statements are an integral part of this statement.



**LYMAN SCHOOL DISTRICT NO. 42-1**  
**BALANCE SHEET-PROPRIETARY FUND**  
**JUNE 30, 2008**

	ENTERPRISE FUND
	Food Service Fund
<b>ASSETS:</b>	
Current Assets:	
Cash and cash equivalents	\$17,974
Inventory of supplies	343
Inventory of stores purchased for resale	830
Inventory of donated food	1,337
Total Current Assets	<u>20,484</u>
Noncurrent Assets:	
Capital Assets:	
Machinery and equipment	52,894
Accumulated depreciation	(36,394)
Total Noncurrent Assets	<u>16,500</u>
<b>TOTAL ASSETS</b>	<u><u>\$36,984</u></u>
<b>LIABILITIES:</b>	
Current Liabilities:	
Contracts payable	\$8,905
Payroll taxes payable	3,865
Total Current Liabilities	<u>12,770</u>
<b>NET ASSETS:</b>	
Invested in capital assets	16,500
Unrestricted net assets	7,714
Total Net Assets	<u>24,214</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$36,984</u></u>

The accompanying notes to financial statements are an  
integral part of this statement.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	ENTERPRISE FUNDS
	Food Service Fund
Operating Revenue:	
Sales:	
To pupils	\$56,184
To adults	7,216
Total Operating Revenue	<u>63,400</u>
Operating Expenses:	
Salaries	54,938
Employee benefits	22,248
Supplies	12,275
Cost of sales-purchased food	87,192
Cost of sales-donated food	14,191
Depreciation	4,996
Total Operating Expenses	<u>195,840</u>
Operating Income (Loss)	<u>(132,440)</u>
Nonoperating Revenue (Expense):	
State Sources:	
Cash reimbursements	1,097
Federal Sources:	
Cash reimbursements	105,355
Donated food	14,162
Total Nonoperating Revenue (Expense)	<u>120,614</u>
Change in Net Assets	(11,826)
Net Assets-beginning	<u>36,040</u>
NET ASSETS-ending	<u><u>\$24,214</u></u>

The accompanying notes to financial statements are an  
integral part of this statement.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	ENTERPRISE FUNDS
	Food Service Fund
Cash Flows from Operating Activities:	
Receipts from customers	\$63,400
Payments to suppliers	(99,633)
Payments to employees	(74,205)
	<u>(110,438)</u>
Net Cash Provided (Used) by Operating Activities	(110,438)
Cash Flows from Noncapital Financing Activities:	
Operating subsidiaries	106,452
	<u>106,452</u>
Net Decrease in Cash and Cash Equivalents	<u><u>(\$3,986)</u></u>
Cash and Cash Equivalents at Beginning of Year	\$21,960
Cash and Cash Equivalents at End of Year	<u>17,974</u>
Net Increase in Cash and Cash Equivalents	<u><u>(\$3,986)</u></u>

The accompanying notes to financial statements are an  
integral part of this statement.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating Income	(\$132,440)
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**Adjustments to Reconcile Operating Income to  
Net Cash Provided (Used) by Operating Activities:**

Depreciation expense	4,996
Commodities used	14,191

**Changes in Assets and Liabilities:**

Inventories	(166)
Payables	<u>2,981</u>

Net Cash Provided (Used) by Operating Activities	<u><u>(\$110,438)</u></u>
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**Noncash Investing, Capital and Financing Activities:**

Value of commodities received	<u><u>\$14,162</u></u>
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The accompanying notes to financial statements  
are an integral part of this statement.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS**  
**JUNE 30, 2008**

	<u>Private-purpose Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS:</b>		
Cash and cash equivalents	<u>\$22,072</u>	<u>\$35,270</u>
<b>Total Assets</b>	<u><u>\$22,072</u></u>	<u><u>\$35,270</u></u>
 <b>LIABILITIES:</b>		
Amounts held for others	\$0	\$35,270
 <b>NET ASSETS:</b>		
Held in trust for scholarships	<u>22,072</u>	<u>0</u>
 <b>Total Liabilities and Net Assets</b>	<u><u>\$22,072</u></u>	<u><u>\$35,270</u></u>

The accompanying notes to financial statements are an  
integral part of this statement.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS**  
**FOR YEAR ENDED JUNE 30, 2008**

	<u>Private-purpose Trust Funds</u>
ADDITIONS:	
Contributions and donations	\$8,000
Interest income	<u>856</u>
Total Additions	<u>8,856</u>
DEDUCTIONS:	
Scholarships paid	<u>(6,350)</u>
Change in Net Assets	2,506
Net Assets-beginning	<u>19,566</u>
NET ASSETS-ending	<u><u>\$22,072</u></u>

The accompanying notes to financial statements are an  
integral part of this statement.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the school district conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity:

The reporting entity of Lyman School District No. 42-1, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The school district participates in a cooperative service unit with four other school districts. See detailed note entitled "Joint Ventures" for specific disclosures.

b. Basis of Presentation, Basis of Accounting:

**Basis of Presentation:**

*Government-wide Statements:* The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and



**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the School District are described below within their respective fund types:

**Governmental Funds:**

**General Fund** - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

**Special Revenue Fund Types** - special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**Capital Outlay Fund** - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. The fund is financed by property taxes. This is a major fund.

**Special Education Fund** - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the district. This fund is financed by grants and property taxes. This is a major fund.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension Fund - A fund established by SDCL 13-10-6 for the purpose of paying the Districts share of retirement plan contributions and paying early retirement benefits to qualifying employees. The fund is financed by property taxes. This is a major fund.

Impact Aid Fund - A fund established by SDCL 13-16-30 and SDCL 13-16-31 to account for funds received through federal P.L. 103-382, Title VIII. Expenditures cannot be made directly from this fund but transfers out to other school district funds shall be made at the direction of the school board. This is a major fund.

**Proprietary Funds:**

Enterprise Funds - enterprise funds are used to accounted for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Food Service Fund - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

The proprietary funds and business-type activities do not apply any FASB Statements and Interpretations issued after November 30, 1989.

**Fiduciary Funds:**

Fiduciary funds are never considered to be major funds.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Private-purpose Trust Funds - Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

The School District maintains only the following private-purpose trust funds:

Scholarship trusts (two separate trusts established by donors to provide for college scholarships to graduating students).

Agency Funds - Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations.

The district maintains agency funds for the following purposes:

Class clubs (such as FFA, Seniors, Juniors, student council)

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe 'how' transactions are recorded within the various financial statements. Basis of accounting refers to 'when' revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

**Measurement Focus:**

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

In the fund financial statements, the 'current financial resources' measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the 'economic resources' measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

**Basis of Accounting:**

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Lyman School District No. 42-1, the length of that cycle is 60 days. No revenues were accrued at June 30, 2008.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where recognition criteria have been met but for which revenue recognition criteria have not been met.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The business-type activities and enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

d. Interfund Eliminations and Reclassifications:

*Government-wide Financial Statements:*

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Fund Financial Statements:*

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources."

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in government-wide or fund financial statements.

Government-Wide Statements: All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2008 balance of capital assets for governmental activities are valued at historical cost. The total June 30, 2008 balance of capital assets for business-type activities are all valued at original cost.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ All	-	-
Buildings	\$50,000	Straight-line	50 yrs
Equipment:			
Government type			
activities \$	5,000	Straight-line	5-20 yrs
Business type			
activities \$	500	Straight-line	10 yrs

Land, an inexhaustible capital asset, is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. No long-term liabilities existed as of June 30, 2008.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the fund financial statements, the debt proceeds are reported as revenues (other financing sources) and payment of principle and interest reported as expenditures when the become due. The accounting for proprietary fund long-term is on the accrual basis, the same in the fund statement as it is in the government-wide statements.

g. Program Revenues:

In the Government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.



**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Cash and Cash Equivalents:

The school district pools its cash resources for depositing and investing purposes. Accordingly, the enterprise fund has access to its cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted: or "invested in capital assets, net of related debt.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

k. Application of Net Assets:

It is the School District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATION OF CREDIT RISK AND INTEREST RATE RISK:

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

2. **DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATION OF CREDIT RISK AND INTEREST RATE RISK (continued):**

Investments - in general, SDCL 4-5-6 permits school funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

No investments were held as of June 30, 2008 except bank certificates of deposit.

**Custodial Credit Risk - Deposits** - The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk.

**Interest Rate Risk** - The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk** - State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk** - The School District places no limit on the amount that may be invested in any one issuer.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from deposits and investments to the General Fund, except for amounts earned by the Lunch and Private Purpose Trusts (they keep their interest earnings). USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATION OF CREDIT RISK AND INTEREST RATE RISK (continued):

has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

3. RECEIVABLES AND PAYABLES:

Neither receivables nor payables are aggregated in these financial statements. The District expects all receivables to be collected within one year. No allowances for estimated uncollectibles have been established.

4. INVENTORY:

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

In the Government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the fund financial statements, inventories in the General Fund and Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

5. PROPERTY TAXES:

Property taxes are levied on or before each October 1, attached as an enforceable lien on property as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District's taxes and remits them to the School District.

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period."

6. CHANGES IN CAPITAL ASSETS:

A summary of the changes in capital assets for the year ended June 30, 2008 is as follows:

	Balance <u>7/01/07</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/08</u>
Government Activities:				
Capital Assets				
not being				
depreciated				
land	\$ 63,507	\$ -	\$ -	\$ 63,507
Capital Assets				
being depreciated				
Buildings	3,031,715	-	-	3,031,715
Machinery and				
Equipment	<u>1,013,618</u>	<u>153,746</u>	<u>-</u>	<u>1,167,364</u>
Total	<u>4,045,333</u>	<u>153,746</u>	<u>-</u>	<u>4,199,079</u>

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

6. CHANGES IN CAPITAL ASSETS (continued)

	Balance <u>7/01/07</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/08</u>
Less accumulated				
Depreciation:				
Buildings	\$1,281,533	\$ 45,608	\$ -	\$1,327,141
Machinery and				
Equipment	<u>447,233</u>	<u>87,854</u>	<u>-</u>	<u>535,087</u>
Total	<u>1,728,766</u>	<u>133,462</u>	<u>-</u>	<u>1,862,228</u>
Total capital assets				
being depreciated,				
net:	<u>2,316,567</u>	<u>20,284</u>	<u>-</u>	<u>2,336,851</u>
Governmental activity				
capital assets,				
net:	<u>\$2,380,074</u>	<u>\$ 20,284</u>	<u>\$ -</u>	<u>\$2,400,358</u>
Business type activities				
Machinery and				
Equipment	\$ 52,894	\$ -	\$ -	\$ 52,894
Less accumulated				
depreciation	<u>31,398</u>	<u>4,996</u>	<u>-</u>	<u>36,394</u>
Business-type activities				
capital assets,				
net:	<u>\$ 21,496</u>	<u>\$ (4,996)</u>	<u>\$ -</u>	<u>\$ 16,500</u>

Depreciation expense was changed to functions as follows:

Governmental activities:	
Instruction	\$ 85,416
Support Services	42,708
Cocurricular Activities	<u>5,338</u>
	<u>\$ 133,462</u>

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

6. CHANGES IN CAPITAL ASSETS (continued)

Business-type activities:  
Food Service \$ 4,996

7. RESTRICTED NET ASSETS

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay Fund	Law	\$ 331,117
Special Education Fund	Law	625,835
Pension	Law	76,733
Food Service	Federal regulation	<u>7,714</u>
Total Restricted Net Assets:		<u>\$1,041,399</u>

8. RETIREMENT PLAN

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost sharing, and multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also required the employer to make an additional contribution in the amount of 6.2

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

8. RETIREMENT PLAN (continued):

percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended June 30, 2008, 2007, and 2006 were \$136,948, \$129,638 and \$124,479 respectively, equal to the required contributions each year.

9. JOINT VENTURES

The school district participates in the Three River Special Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education and other services to the member school districts.

The members of the co-op and their relative percentage participation in the co-op are the following school districts:

Bennett County	29%
Jones County	13%
Kadoka	23%
Lyman	17%
White River	<u>18%</u>
	<u>100%</u>

The co-op's governing board is composed of a representative from each member school district, who are school board members. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The school district retains no equity in the net assets of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Three River Special Services Cooperative, Midland, South Dakota.



**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

9. JOINT VENTURES (continued):

This entity had equity of \$787,687 and long-term debt of \$3,042 as of June 30, 2008.

10. RISK MANAGEMENT

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2008, the school district managed its risks as follows:

Unemployment Benefits:

The School has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended June 30, 2008, no claims were paid for unemployment benefits. At June 30, 2008, no claims had been filed and were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

Employee Health Insurance:

The school district obtains health insurance for its employees from a commercial carrier. Settled claims from these risks have not exceeded coverage during the past three years.

Liability Insurance:

The school district joined the Associated School Boards of South Dakota Property Liability Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota School Districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The School District's responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident that could result in a claim being made by or against the School District. The School District pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

10. RISK MANAGEMENT (continued):

accrued based on the ultimate cost of the experience to date of the ASBSD-PLF member, based on their exposure or type of coverage. The school district pays an annual premium to the pool to provide coverage for liability coverage for torts; property damage or theft, errors and omissions, boiler, vehicles and umbrella.

The agreement with the Associated School Boards of South Dakota Property Liability Fund provides that the above coverage's will be provided to a \$6,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit. The School District carries a \$1,000 deductible for the above coverage.

The school district does not carry additional coverage to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The School District is responsible for payment of a premium to the insurance pool along with other pool participants. The School District may also be responsible for

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

10. RISK MANAGEMENT (continued):

additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool's retained risk was \$500,000 per occurrence with additional insurance purchased from a private insurance company for an additional \$500,000 for total coverage of \$1,000,000 per occurrence.

The School District does not carry additional insurance to cover claims in excess of the upper limit.

Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

11. INTERFUND TRANSFERS

Transfers of interest earned to the General Fund were made from the Capital Outlay Fund for \$16,088, the Special Education Fund for \$29,878, the Pension Fund for \$4,597 and the Impact Aid Fund for \$108,019.

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2008**

	Federal CFDA Number	Pass- through Grantor's Number	Expenditures
<b>U. S. DEPARTMENT OF AGRICULTURE:</b>			
Pass-through the S. D. Department of Education:			
Food Distribution (Commodities Used)	10.550	N/A	\$14,191
Child Nutrition Cluster:			
School Breakfast Program (Note 2 and 3)	10.553	420010	30,885
National School Lunch Program (Note 2 and 3)	10.555	420010	74,470
Pass-through Lyman County:			
Schools and Roads- Grants to counties	10.666	N/A	1,967
<b>TOTAL U. S. DEPARTMENT OF AGRICULTURE</b>			<b>121,513</b>
<b>U. S. DEPARTMENT OF EDUCATION:</b>			
Direct Federal Funding:			
Impact Aid- Maintance and Operations (Note 4)	84.041	N/A	133,016
Pass-through the S. D. Department of Education:			
Title I Programs - Local Education Agencies (Note3)	84.010	T1-08-95	367,309
Safe and Drug Free Schools and Communities State Grants	84.186	N/A	9,802
Innovative Education Program Strategies	84.298	N/A	1,546
Education Technolgy State Grants	84.318	N/A	6,956
Improving Teacher Quality State Grants	84.367	N/A	100,261
Special Education Cluster:			
Special Education Grants to States	84.027	N/A	97,209
Special Education - Preschool Grants	84.173	N/A	10,391
<b>TOTAL U. S. DEPARTMENT OF EDUCATION</b>			<b>726,490</b>
<b>GRAND TOTAL</b>			<b>\$848,003</b>

**LYMAN SCHOOL DISTRICT NO. 42-1**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2008**

- NOTE 1: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.
- NOTE 2: These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursements for specific expenditures.
- NOTE 3: This grant was treated as a major program.
- NOTE 4: The amount represents \$108,019 transferred from the Impact Aid Fund to the General Fund plus \$24,997 directly received into and expended by the Special Education Fund.

**Summary of Significant Accounting Policies-**

Federal awards expended by Enterprise Funds (all Department of Agricultural Awards, except CDFA No. 10.666) are accounted for using the accrual basis of accounting. All other awards are accounted for using the modified accrual basis of accounting.

**LYMAN SCHOOL DISTRICT No. 42-1**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

- a. An unqualified opinion was issued on the financial statements of each opinion unit.
- b. Significant deficiencies and material weaknesses in internal control were disclosed by the audit of the financial statements. See Section 2, Findings Number 2008-01 and 2008-02.
- c. One instance of noncompliance was noted by the audit per Finding No. 2008-03.
- d. Significant deficiencies and material weaknesses in internal control over major programs were noted. See Section 3, Finding Number 2008-04.
- e. An unqualified report was issued on compliance for major programs.
- f. Audit finding required to be disclosed under Section .510 (a) of OMB Circular A-133 is listed below in Section 3, Finding Number 2008-04.
- g. Programs treated as major programs for this audit were:

<u>Name</u>	<u>CFDA Number</u>
School Breakfast Program	10.553
National School Lunch Program	10.555
Title I Programs-	
Local Education Agencies	84.010

- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The entity did not qualify as a low risk auditee as described in Section .530 of OMB Circular A-133.

**LYMAN SCHOOL DISTRICT No. 42-1**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2008**

**2. FINANCIAL STATEMENT FINDINGS**

**FINDING NUMBER 2008-01:**

A significant deficiency and material weakness is present due to a lack of segregation of duties in revenue, expenditure and payroll functions.

**CRITERIA:**

To obtain adequate internal control, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process. Various other accounting functions should be performed by different people to insure a proper segregation of duties.

**POSSIBLE ASSERTED EFFECT:**

Inaccurate financial statements and/or misappropriations of funds could result from a lack of segregation of duties.

**RECOMMENDATION:**

Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

**SCHOOL DISTRICT RESPONSE AND CORRECTIVE ACTION PLAN:**

The School Board and Superintendent agree with this comment and are responsible for the corrective action plan for his comment. This comment is a result of the size of the Lyman School District Number 42-1 which precludes staffing at a level sufficient to provide an ideal environment for internal controls. Lyman School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenue, expenditures and payroll. Lyman School District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures and payroll function continues to exist.

**FINDING NUMBER 2008-02:**

School District bank statements were not properly reconciled to the general ledger during fiscal year 2008.

**LYMAN SCHOOL DISTRICT No. 42-1**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2008**

**CRITERIA:**

Sound bookkeeping procedures include a monthly reconciliation of cash asset control accounts in the general ledger to actual cash assets such as bank statements and lists of certificates of deposit. These procedures were attempted on a monthly basis, but were not accomplished.

**POSSIBLE ASSERTED EFFECT:**

Inaccurate reporting and/or misappropriation of funds could result from this condition.

**RECOMMENDATION:**

The general ledger cash control accounts should be properly reconciled to bank statements and actual assets on a monthly basis.

**MANAGEMENT RESPONSE:**

Management agrees with this comment and will insure that cash is properly reconciled in the future.

**FINDING NUMBER 2008-03:**

The School District did not adopt a budget for the Impact Aid Fund for fiscal year 2008.

**CRITERIA:**

South Dakota Codified Law (SDCL)13-11-2 requires the School Board to approve a budget for each fund, except for trust and agency funds.

**POSSIBLE ASSERTED EFFECT:**

Since the budget is an internal control, inaccurate financial reporting and/or misappropriation of funds could result from failure to implement a budget.

**RECOMMENDATION:**

Management should adopt annual budgets for all funds as required by SDCL 13-11-2.

**SCHOOL DISTRICT RESPONSE:**

The School District agrees with this comment and will adopt this budget in the future.



**LYMAN SCHOOL DISTRICT No. 42-1**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2008**

3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER 2008-04

A material weakness in internal control over federal programs exists due to a lack of segregation of duties. See Finding Number 2008-01 above for further explanation.

COMPLIANCE REQUIREMENT AFFECTED:  
Allowable costs/cost principles.

FEDERAL PROGRAMS AFFECTED:

<u>Name</u>	<u>CFDA No.</u>
School Breakfast Program	10.553
National School Lunch Program	10.555
Title I	84.010

POSSIBLE ASSERTED EFFECT:  
Inaccurate financial reporting and/or misappropriations of funds could result from a lack of segregation of duties.

RECOMMENDATION:  
Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN:  
The School Board and Superintendent agree with comment and are responsible for the corrective action plan for his comment. This comment is a result of the size of the Lyman School District Number 42-1 which precludes staffing at a level sufficient to provide an ideal environment for internal controls. Lyman School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenue, expenditures and payroll. Lyman School District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures and payroll function continues to exist.

**LYMAN SCHOOL DISTRICT No. 42-1**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**JUNE 30, 2008**

Prior Audit Findings relative to Financial Statement Audit:

FINDING NO. 2006-01 and 2007-01

A material weakness was reported due to a lack of segregation of duties. This condition was first reported by this auditor in 2001.

Status as of June 30, 2008:

The condition noted in prior audits is still applicable.

FINDING NO. 2007-02

School District bank statements were not properly reconciled to the general ledger.

Status as of June 30, 2008:

The condition noted in the prior audit is still applicable.

FINDING NO. 2007-03 and 2006-02

The Impact Aid Fund did not have a budget.

Status as of June 30, 2008:

The condition noted in the prior audit is still applicable.

Prior Audit Findings relative to Federal Awards:

FINDING NO. 2006-03 and 2007-04

A material weakness was reported due to a lack of segregation of duties.

Status as of June 30, 2008:

The condition noted in prior audits is still applicable.